



CERTIFIED – RETURN RECEIPT REQUESTED

October 27, 2004

**David Catanach, Hearing Examiner
New Mexico Oil Conservation Division
P.O. Box 6429
1220 S. Saint Francis Drive
Santa Fe, NM 87504**

**Re: Application for Administrative Approval
Surface Commingling and Method of Allocation of Production
Gracia Federal 8-C No. 2 and Oneda No. 1
W/2 Section 8, Township 26 North, Range 11 West
San Juan County, New Mexico**

Dear Mr. Catanach:

Enclosed for your review and processing is the original of Pro NM Energy, Inc.'s Application for Administrative Approval of Surface Commingling and Method of Allocation of Production concerning the Gracia Federal 8-C No. 2 and Oneda No. 1 wells situated in the W/2 Section 8, Township 26 North, Range 11 West, San Juan County, New Mexico.

**Please give me a call if you have any questions or need any further information.
Thank you.**

Very truly yours,

**Jolene Dicks
Director of Operations**

Enclosures

cc: NMOCD Aztec District Office (w/enc.)

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

1220 South St. Francis Drive, Santa Fe, NM 87505



ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

- [NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
- [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
- [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
- [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
- [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
- [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] **TYPE OF APPLICATION - Check Those Which Apply for [A]**

- [A] Location - Spacing Unit - Simultaneous Dedication
 NSL NSP SD

Check One Only for [B] or [C]

- [B] Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM

- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 WFX PMX SWD IPI EOR PPR

- [D] Other: Specify _____

[2] **NOTIFICATION REQUIRED TO: - Check Those Which Apply, or Does Not Apply**

- [A] Working, Royalty or Overriding Royalty Interest Owners
- [B] Offset Operators, Leaseholders or Surface Owner
- [C] Application is One Which Requires Published Legal Notice
- [D] Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
- [E] For all of the above, Proof of Notification or Publication is Attached, and/or,
- [F] Waivers are Attached

[3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Jolene Dicks

Print or Type Name

Jolene Dicks

Signature

Director of Operations 10/25/04

Title

Date

pronmene@aol.com

e-mail Address

District I
1625 N. French Drive, Hobbs, NM 88240
District II
1301 W. Grand Ave, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St Francis Dr, Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107-B
Revised June 10, 2003

OIL CONSERVATION DIVISION
1220 S. St Francis Drive
Santa Fe, New Mexico 87505

Submit the original application to the Santa Fe office with one copy to the appropriate District Office.

APPLICATION FOR SURFACE COMMINGLING (DIVERSE OWNERSHIP)

OPERATOR NAME: Pro NM Energy, Inc. (018118)
OPERATOR ADDRESS: 460 St. Michael's Dr., #300 Santa Fe, NM 87505
APPLICATION TYPE:

Pool Commingling Lease Commingling Pool and Lease Commingling Off-Lease Storage and Measurement (Only if not Surface Commingled)

LEASE TYPE: Fee State Federal

Is this an Amendment to existing Order? Yes No If "Yes", please include the appropriate Order No. _____
Have the Bureau of Land Management (BLM) and State Land office (SLO) been notified in writing of the proposed commingling
 Yes No

(A) POOL COMMINGLING
Please attach sheets with the following information

(1) Pool Names and Codes	Gravities / BTU of Non-Commingled Production	Calculated Gravities / BTU of Commingled Production	Calculated Value of Commingled Production	Volumes
Basin Dakota 71599	1241			
Basin Fruitland Coal 71629	well has not been completed application will be supplemented upon completion & testing			

- (2) Are any wells producing at top allowables? Yes No
(3) Has all interest owners been notified by certified mail of the proposed commingling? Yes No.
(4) Measurement type: Metering Other (Specify) _____
(5) Will commingling decrease the value of production? Yes No If "yes", describe why commingling should be approved

(B) LEASE COMMINGLING
Please attach sheets with the following information

- (1) Pool Name and Code.
(2) Is all production from same source of supply? Yes No
(3) Has all interest owners been notified by certified mail of the proposed commingling? Yes No
(4) Measurement type: Metering Other (Specify) _____

(C) POOL and LEASE COMMINGLING
Please attach sheets with the following information

- (1) Complete Sections A and E.

(D) OFF-LEASE STORAGE and MEASUREMENT
Please attached sheets with the following information

- (1) Is all production from same source of supply? Yes No
(2) Include proof of notice to all interest owners.

(E) ADDITIONAL INFORMATION (for all application types)
Please attach sheets with the following information

- (1) A schematic diagram of facility, including legal location.
(2) A plat with lease boundaries showing all well and facility locations. Include lease numbers if Federal or State lands are involved.
(3) Lease Names, Lease and Well Numbers, and API Numbers.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE: Jolene Dicks TITLE: Director of Operations DATE: 10/20/04
TYPE OR PRINT NAME: Jolene Dicks TELEPHONE NO.: 505-988-4171
E-MAIL ADDRESS: pronmene@aol.com

NEW MEXICO OIL CONSERVATION DIVISION

**PRO NM ENERGY, INC.'S
APPLICATION FOR ADMINISTRATIVE APPROVAL
FOR SURFACE COMMINGLING
GRACIA FEDERAL 8-C NO. 2 WELL (API No. 30-045-31819) and the
ONEDA NO. 1 WELL (API No. 30-045-20664)**

Pro NM Energy, Inc. (OGRID No. 018118) intends to install a gas line from the Gracia Federal 8-C No. 2 well (8-C) in Unit C of Sec. 8, T26N, R11W and terminating at a field compressor site and Central Delivery Point (CDP) at the Oneda No. 1 also located in Unit C of Sec. 8, T26N, R11W. Both wells are dedicated to the W/2 of Section 8. Pro NM Energy, Inc. is the operator of both wells. The layout of the facilities and mineral ownership of the dedicated acreage is shown on the schematic attached as Exhibit "A". Due to the diversified mineral ownership and the fact that the 8-C will produce from the Basin Fruitland Coal (Pool No. 71629) while the Oneda No. 1 is producing from the Basin Dakota (Pool No. 71599), in accordance with New Mexico Oil Conservation Division Rule 309-B.4, we are submitting this application for approval of the allocation of the production as outlined on the attached method.

In order to facilitate the most economic gas production levels from each well, as well as increasing the total reserve recovery, compression is required. To be cost effective, efforts are being made to utilize a single compressor for both wells. This effort will produce a commingled gas stream delivered to the transmission company through a single sales meter. No commingling of liquids will occur.

Our intention is to allocate the gas sales and production volumes for each well based on separate allocation meters and the sales meter set at the outlet of the compressor located on the Oneda No. 1 location and a standard orifice meter located on the 8-C location. The monthly calculations to be used for the volume allocation are shown on Exhibit "B" attached hereto.

For purposes of revenue settlement, additional calculations based on the heat content of the individual gas streams (MMBtu) will be performed in order to facilitate

proper credits being given the wells. A gas analysis will be obtained on a quarterly basis at approximately the same time as the transmission company samples the CDP. The monthly calculations to be used for revenue allocation are shown on Exhibit "C" attached to this application. The revenue allocation will affect working interest owners Pro NM Energy, Inc., XTO Energy, Inc. and Martin Proyect who all have an interest in the 8-C. Pro NM Energy, Inc. is the only working interest owner in the Oneda No. 1 well. The royalty and overriding royalty interest owners have identical interest in each of the wells.

The Bureau of Land Management, El Paso Natural Gas Company and all interest owners in the leases are being advised of this application. Pursuant to New Mexico Oil Conservation Division Rule 309-B.4, we are asking for their concurrence to the allocation methods proposed, and advising them that any objections to our proposal should be made within twenty (20) days.

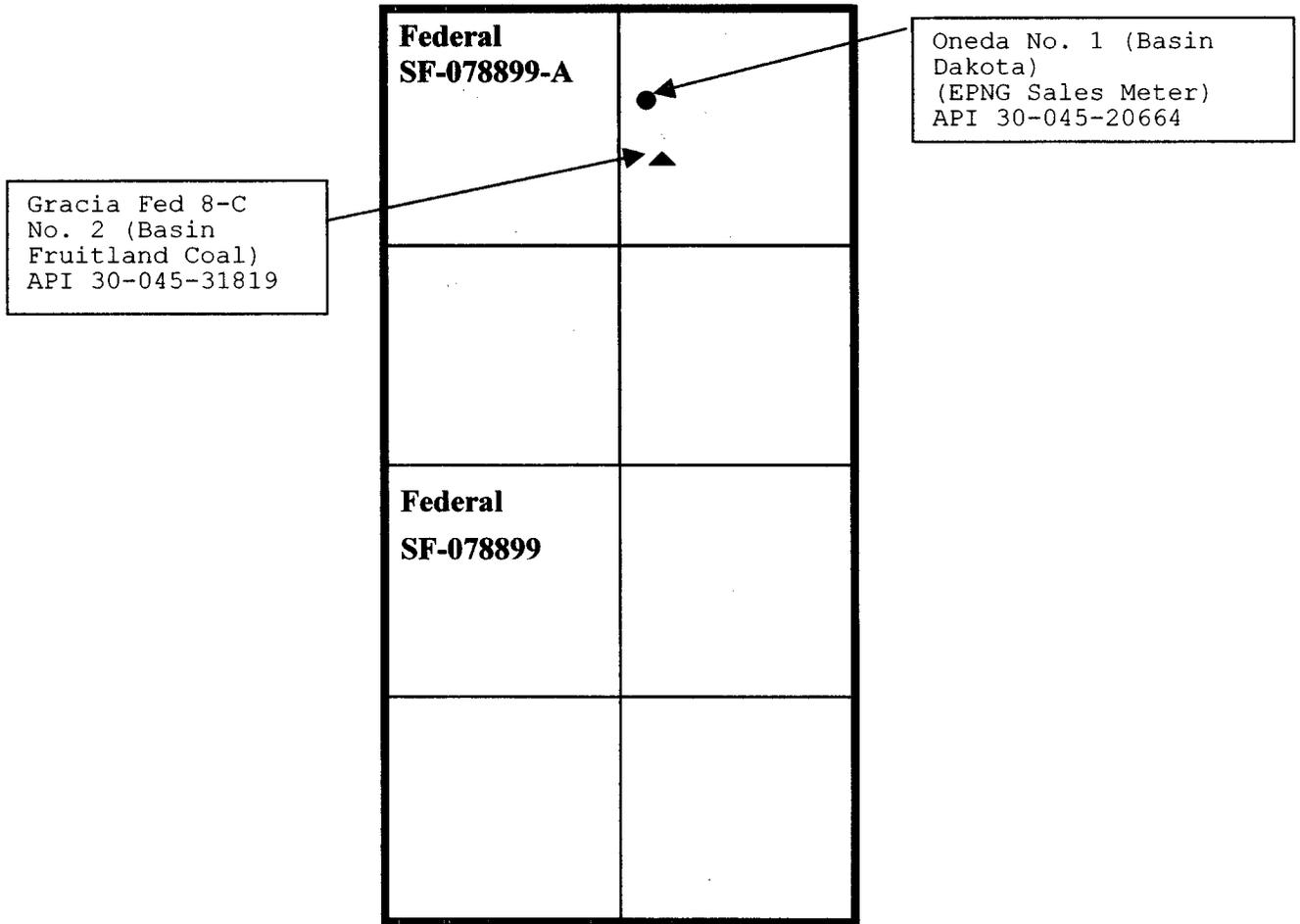
Respectfully submitted by

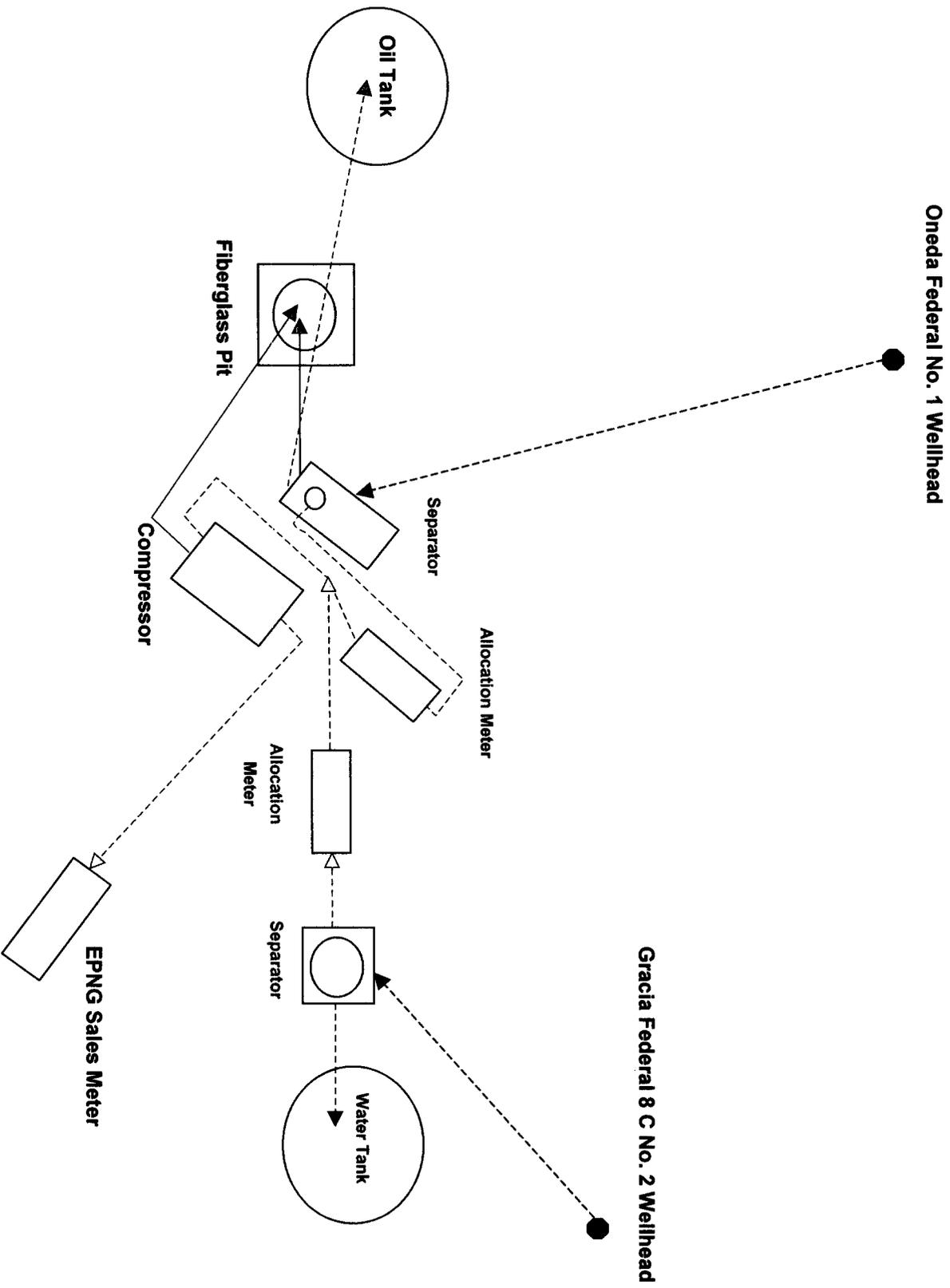
PRO NM ENERGY, INC.


Jolene Dicks, Director of Operations

EXHIBIT "A"
Schematic of Facilities and Mineral leases
For Allocation of Production

W/2 Sec. 8, T26N, R11W, N.M.P.M.
San Juan County, New Mexico





PRO NM ENERGY, INC.'S
APPLICATION FOR ADMINISTRATIVE APPROVAL
FOR SURFACE COMMINGLING
GRACIA FEDERAL 8-C NO. 2 WELL (API No. 30-045-31819) and the
ONEDA NO. 1 WELL (API No. 30-045-20664)

VOLUME ALLOCATION CALCULATIONS

1. Obtain TOTAL MONTHLY GAS SALES from CDP in MCF from transporter.
2. Add TOTAL MONTHLY GAS SALES and TOTAL MONTHLY FUEL GAS USAGE to obtain a combined TOTAL MONTHLY PRODUCTION.
3. Obtain MONTHLY GAS VOLUME in MCF for Gracia Federal 8-C from independent chart integration company.
4. Subtract the MONTHLY GAS VOLUME for Gracia Federal 8-C from the TOTAL MONTHLY PRODUCTION to obtain the MONTHLY MCF PRODUCED by the Oneda No. 1
5. Divide the MONTHLY MCF PRODUCED from each well by the TOTAL MONTHLY PRODUCTION to calculate the MONTHLY FUEL GAS FACTORS allocated to each well.
6. Multiply the individual FUEL GAS FACTORS by the TOTAL MONTHLY FUEL GAS to obtain a MONTHLY FUEL GAS USAGE IN MCF for each well.
7. Subtract the MONTHLY FUEL GAS USAGE IN MCF from the MONTHLY MCF PRODUCED for each well to obtain the allocated MONTHLY SALES VOLUMES in MCF for each well.

Merle S. Dennis
Natural Gas Consultant

Address 2511 W. Broadway
 Bloomfield, NM 87413
Telephone (505) 632-8027
Telefax (505) 632-7155

The routine allocates volumes (Mcf), heating value (Dth) and dollars.

The routine allocates the compressor usage volumes and heating value by the ratio of Mcf produced at each well.

The production, in Mcf, for the Oneda #1 is calculated by subtracting from the CDP volume, the volume estimated for the compressor usage and the total produced by the Gracia Fed. This gives the volume after separator use of the Oneda #1 in Mcf. This provides a ratio, Oneda Mcf/(Oneda Mcf + Gracia Mcf) to allocate the compressor fuel for the Oneda. This factor is multiplied by the compressor fuel Mcf to obtain the Oneda fuel usage. The remainder of the fuel (in Mcf) is allocated to the Gracia well.

The allocated Oneda Mcf is then multiplied times the Oneda Mbtu factor to obtain the Dth's allocated to compressor fuel. The allocated Gracia Mcf is multiplied times the Gracia Mbtu factor to obtain the Dth's allocated to compressor fuel for the Gracia well.

Separator fuel is estimated for each well by using the manufacturers estimated fuel consumption (normally in Btu/Day, hour or Dth per day). This factor should be input in Dth per day by the user of the routine. The routine then calculates the number of days in use, divides the Dth by the Mbtu factor to obtain the Mcf for Separator use.

Allocating the compressor fuel by Mcf may (and usually does) leave a difference in the allocated Dth upstream and the measured Dth at the CDP. This is because the ratio of Mcf to Mcf is not the same as the ration of Dth to Dth. One well has a Btu/cf of 1245 while the other one has a Btu/cf of 1014. Therefor difference (Measured Dth - allocated Dth) is then allocated by the ratio of Dth allocated for each well to total allocated Dth. (The difference is allocated based on the production Dth for each well to the CDP Measured Dth.)

The routine next allocates Field Loss, Plant Fuel, Dehy costs, Plant Dehydration costs based on the ratio of Dth produced by each well at the CDP.

Liquid Gallons are allocated based on GPM per component per well. The GPM of each component is ratioed with the Total GPM of both wells by component to develop a factor to use to multiply times the gallons reported for the CDP.

Plant extraction, reported in Dth is allocated by calculating the Dth attributed to the allocated gallons for each component for each well. The Dth for each well is then used to ratio the Plant extracted Dth.

When the user has input the data and checked the red outlined area to be certain the allcated Data equals the measured data for the CDP, the user may click on the print buttons to initiate the printing of the two reports provided by the routine.

A sheet has been provided to enter the Btu analysis of the CDP. However, this material is not used by the routine. It would only be used to compare the liquids actually allocated to the theoretical liquids available at the CDP.

If the box is outlined in green the value is calculated by the allocation routine.

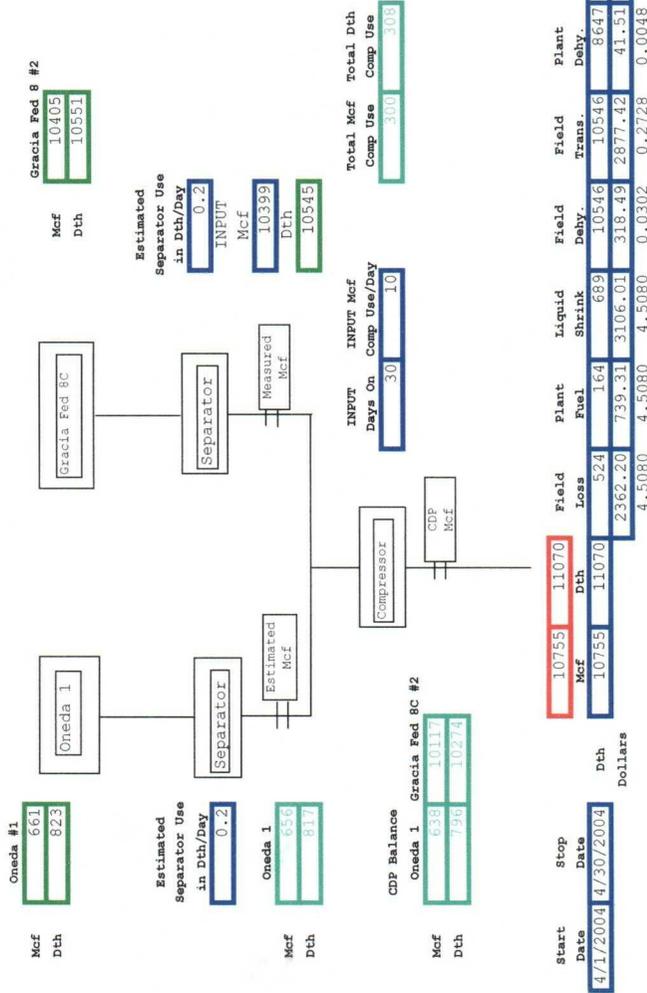
If the box is outlined in blue the value is input by the user. It may be a value that rarely changes but is still input by the user.

If the box is outlined in red the value is to be compared to the value of the measured CDP. The values should be the same. If they are not, the input data should be checked.

Legend

When the user needs to adjust the Btu/cf for each well they should go to the spreadsheet entitled "Btu Analysis-Well Name"

Btu Analysis-Well Name



Print Oneda Report

Print Gracia Report

AFFIDAVIT OF MAILING

STATE OF NEW MEXICO)
)ss.
COUNTY OF SANTA FE)

JOLENE DICKS, authorized representative of Pro NM Energy, Inc., being duly sworn and upon oath states as follows:

1. Pro NM Energy, Inc. is submitting an Application for Administrative Approval for Surface Commingling and Approval of Method of Allocation of Production concerning the Gracia Federal 8-C No. 2 (API No. 30-045-31819) and the Oneda No. 1 (API No. 30-045-20664) wells, in the W/2 of Section 8, Township 26 North, Range 11 West, San Juan County, New Mexico, to the New Mexico Oil Conservation Division.
2. The Application concerns the commingling of production from the Basin Fruitland Coal formation (Gracia Federal 8-C No. 1) and the Basin Dakota formation (Oneda No. 1) underlying two federal leases (SF-078899-0 and SF-078899-A).
3. The royalty ownership and the overriding royalty ownership in the two formations underlying the federal leases are identical. The working interest ownership differs as to the interests owned by XTO Energy, Inc., Martin and Caroline Proyect and Pro NM Energy, Inc.
4. Pursuant to NMOCD Rule 309-B.A(4), notice of intent to commingle production is required to all interest owners in the subject leases and formations.

5. A list with the names and addresses of the royalty, overriding royalty and working interest owners, as well as the transporter (El Paso Field Services) are attached hereto as Exhibit "A".

6. On behalf of Pro NM Energy, Inc., I apprised each of the interest owners and the transporter of the Application for Administrative Approval for Surface Commingling and Approval of Method of Allocation of Production by memo to each on October 25, 2004, along with a copy of the Application, by certified mail, return receipt requested. A copy of the memo is attached hereto as Exhibit "B".



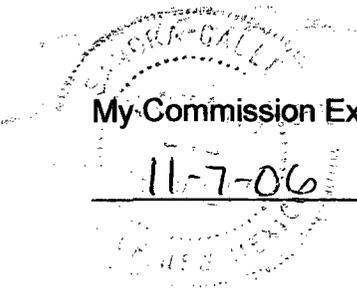
JOLENE DICKS

SUBSCRIBED AND SWORN to before me this 27th day of October, 2004.



NOTARY PUBLIC

My Commission Expires:


11-7-06

UNITED STATES BUREAU OF LAND MANAGEMENT
ATTN: LEE OTNEY
1235 LA PLATA HWY, SUITE A
FARMINGTON, NM 87401

EL PASO FIELD SERVICES
614 REILLY AVENUE
FARMINGTON, NM 87401

DAVID ELBERT REESE
2203 N. BELMONT
RICHMOND, TX 77469

MARTIN AND CAROLINE PROYECT
411 TANO ROAD
SANTA FE, NM 87501

BARBARA HEYER
XTO ENERGY, INC.
810 HOUSTON STREET
FORT WORTH, TX 76102-6298

CATHERINE GRAY REMENICK
CHASE BANK OF TEXAS
TRUST MINERALS SECTION - #32400-07
P O BOX 201884
HOUSTON, TX 77216-1884

ARMENHAUS, INC.
10021 FRIENDSHIP CIRCLE
BURTON, TX 77835-5731

BENNETT W. CERVIN
3000 FIRST CITY CENTER
1700 PACIFIC AVENUE
DALLAS, TX 75201-4693

LEWIS PAUL SAXER
1126 MERRIFIELD DRIVE
WEST CHESTER, PA 19380-6834

JAMES L FASHING
2431 MEMPHIS ST.
EL PASO, TX 79930

FWH OIL & GAS, LTD.
P O BOX 2102
EL PASO, TX 79951-2102

CAROLYN STACK
1406 BUTTONWOOD DRIVE
FORT COLLINS, CO 80525

BETTY T. JOHNSTON MARITAL TRUST
BETTY T. JOHNSTON, LYLE E. CARBAUGH & PAUL M.
HARDWICK,
CO-TRUSTEES
245 COMMERCE GREEN, #280
SUGARLAND, TX 77479

MICHELE D. ALEXANDER
714 E. 16th St.
DALHART, TX 79022

RAYBOURNE THOMPSON, JR.
6022 CRAB ORCHARD
HOUSTON, TX 77057

JERRY J ANDREW
408 LONGWOODS
HOUSTON, TX 77024

ROBERT EDMUND BEAMON, III
2603 AUGUSTA, STE. 1050
HOUSTON, TX 77057

DONALD MCCLURE WAITE
1476 GROVE TERRACE
WINTER PARK, FL 32780

WILLIAM LOUIS DAVANT
P.O. BOX 221
BLESSING, TX 77419-0214

FRANK D GRAHAM
P O BOX 7085
DALLAS, TX 75209

CAROLE ANNE WALKER COHEN
4929 BEAUCHAMP
SAN DIEGO, CA 92130

LINDSAY PRODUCTION & ROYALTIES, LTD
112 EAST PECAN, SUITE 500
SAN ANTONIO, TX 78205

MARIAN N HARWELL
112 EAST PECAN, SUITE 500
SAN ANTONIO, TX 78205

REBECCA ANN REESE WARD
280 W. RENNER #5011
RICHARDSON, TX 75080

V A JOHNSTON FAMILY TRUST
P O BOX 825
RALLS, TX 79357-0825

THOMAS V. MCMAHAN
P O BOX 497
HOUSTON, TX 77001-0497

EUGENIA DAVANT WILSON
561 CASS STREET
SULPHUR, LA 70663-1015

THE NORDAN TRUST
112 E. PECAN, SUITE 500
SAN ANTONIO, TX 78205

PURE RESOURCES, L.P.
500 W. ILLINOIS
MIDLAND, TX 79701

ESTATE OF KATHRYN E. BRAY
C/O KIMBERLEE DICKSON, ESQ.
512 SOUTH WHEELING AVE.
TULSA, OK 74104

ROGERS FAMILY TRUST
4855 N. MESA ST., SUITE 122
EL PASO, TX 79912

NED SAYFORD THOMPSON
P O BOX 235
POLLOK, TX 75969

CYNTHIA GRAY MILANI
CHASE BANK OF TEXAS
TRUST MINERALS SECTION - #32400-07
P O BOX 201884
HOUSTON, TX 77216-1884

GLADYS WATFORD TRUST
ANNE V. POGSON, TRUSTEE
12112 TALMAY DRIVE
DALLAS, TX 75230

ATKO PARTNERS, LTD
DR. B. J. ATKINS, MD
260 I-45, STE. AHUNTSVILLE, TX 77340

ELIZABETH GOODWIN REESE
7800 NAIRN
HOUSTON, TX 77074

ATKO PARTNERS, LTD
DR. B. J. ATKINS, MD
260 I-45, STE. AHUNTSVILLE, TX 77340

JAMES P. BOLDRICK
P O BOX 10605
MIDLAND, TX 79702

ROGERS-GIBBARD TRUST
C/O SUSAN ROGERS EVELAND
3630 RIVER OAKS COURT
TYLER, TX 75707-1658

MILES BOLDRICK
P O BOX 10648
MIDLAND, TX 79702

PAMELA GRAY BALDWIN
CHASE BANK OF TEXAS
PO BOX 201884
HOUSTON, TX 77216-1884

GEORGIA M SMITH
2339 SOUTHGATE
HOUSTON, TX 77030-1137

GROVER FAMILY, L.P.
P O BOX 3666
MIDLAND, TX 79702

W. L. JENNINGS
SAN JUAN ROYALTY JV-90
P O BOX 117
ABILENE, TX 79604

TEXAS GULF BANK, N.A.
ESCROW AGENT FOR DAVID DEWITT JONES
107 WESTWAY
LAKE JACKSON, TX 77566

JAMES R. LEETON, JR.
SAN JUAN ROYALTY JV-90
P O BOX 10561
MIDLAND, TX 79702

W. D. KENNEDY
SAN JUAN ROYALTY JV-90
550 W. TEXAS, SUITE 1225
MIDLAND, TX 79701

TOURMALINE EXPLORATION COMPANY
8493 SOUTH WOODY WAY
HIGHLANDS RANCH, CO 80126

DORIS L. WILLIAMS
P O BOX 8306
HOUSTON, TX 77288-8306

DONALD E. FAGAN
6518 ROOS ROAD
HOUSTON, TX 77074-6328

ALYSSA JANE WALKER
812 BIRCHWOOD DRIVE
LOS ANGELES, CA 90024

ESTATE OF HARRY B BOTTS
C/O WAYNE K. WARE
1109 RIVER GREEN DRIVE, NW
ATLANTA, GA 30327

WILLIAM W. BRAMLETT & JULIANNE D. BRAMLETT
P O BOX 3273
MIDLAND, TX 79702

SALLY LYNNE WALKER ANDERSON
3710 RIVER FARM DRIVE
WEST LAKE VILLAGE, CA 91391

CONSTANCE SUE COKE ELMS
4306 BRETTON BAY LANE
DALLAS, TX 75287

MARIAN R. ALEXANDER MARITAL DEDUCTION TRUST
C/O J P MORGAN CHASE BANK
P O BOX 2558
HOUSTON, TX 77525-8033

GRACE KELLER WARE
777 NORTH POST OAK ROAD #1804
HOUSTON, TX 77024-3826

ELIZABETH L. HOWE
317 LARCHBROOK DR.
GARLAND, TX 75043-5521

CAROLYN DAVANT FRICKE
113 BOWIE ST.
PORT LAVACA, TX 77979-2606

JOHN L GRAY
CHASE BANK OF TEXAS
TRUST MINERALS SECTION - #32400-04
P O BOX 201884
HOUSTON, TX 77216-1884

DAVID H GRAY
CHASE BANK OF TEXAS
TRUST MINERALS SECTION - #32400-04
P O BOX 201884
HOUSTON, TX 77216-1884

RICHARD A. GROENENDYKE, JR.
320 S. BOSTON AVE., STE. 400
TULSA, OK 74103-3704

LAURA ROBINSON GUGENHEIM LIVING TRUST
BANK OF AMERICA NT & SA, TRUSTEE
P O BOX 840738
DALLAS, TX 75284-0738

STANLEY HARRIS, JR
180 E PEARSON ST APT 4704
CHICAGO, IL 60611

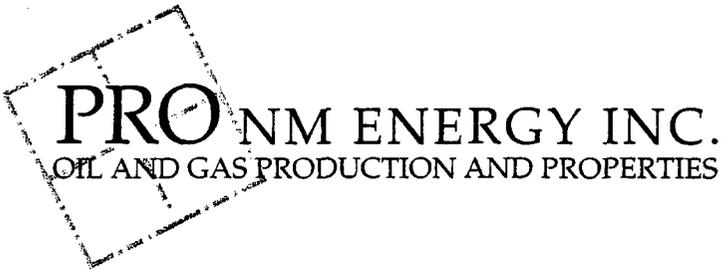
VALORIE HUNDLEY
1306 MORTON LEAGUE ROAD
RICHMOND, TX 77469-1373

EULA MAY JOHNSTON #661
NATIONSBANK
P O DRAWER 840738
DALLAS, TX 75284-0738

CATHERINE LOUISE COKE KNIGHT
P O BOX 260
WILSON, WY 83014

GWINN M. LEWIS
10919 WICKWILD
HOUSTON, TX 77024

ROBERT WALTER LUNDELL
2450 FONDREN #304
HOUSTON, TX 77063



VIA CERTIFIED MAIL - RETURN RECEIPT REQUESTED

DATE: October 25, 2004

TO: Royalty Interest Owner (U. S. Dept. of Interior – Bureau of Land Management)
Working Interest Owners (XTO Energy, Inc., Martin and Caroline Proyect)
Overriding Royalty Interest Owners (attached list)
El Paso Field Services (transporter)

FROM: Jolene Dicks for Pro NM Energy, Inc.

RE: APPLICATION FOR SURFACE COMMINGLING AND APPROVAL OF METHOD OF ALLOCATION OF PRODUCTION

W/2 Section 8, T26N, R11W, San Juan County, New Mexico
Federal Lease Nos. SF-078899-0 and SF-078899-A

Gracia Federal 8-C No. 2 (NE/NW Sec. 8, T26N, R11W) (Basin Fruitland Coal Formation) and the
Oneda Federal No. 1 (NE/NW Sec. 8, T26N, R11W) (Basin Dakota Formation)

San Juan County, New Mexico

Enclosed please find a copy of Pro NM Energy, Inc.'s application for surface commingling of production from the above-referenced wells, and proposed allocation calculations.

Please indicate your concurrence to the application and proposed method of allocation by signing, dating and returning one copy of this memo to our office. Pursuant to New Mexico Oil Conservation Division Rule 309-B.4, any objections to our proposal should be made within twenty (20) days. We appreciate your prompt attention to this matter.

_____ concurs with the application and accepts the allocation methods as described.

By: _____

Date: _____

EXHIBIT "B"